

## March 29, 2016

To: Honorable members of the Portland City Council

From: Janice Thompson, Citizens' Utility Board of Oregon (CUB)

Re: CUB comments on requested budget for Portland Water Bureau

Page 1 Introduction

Page 1 Retain initial CUB recommendations reflected in requested PWB budget

Page 1 - Mt. Tabor historic preservation work done by PWB with general fund dollars

Page 2 - Monthly billing outreach within context of comprehensive and culturally aware

communication strategy and increased outreach capacity

Page 3 Other decision packages

Page 3 Decorative fountains – observation and questions

Page 4 Consolidate Cayenta billing system staff within PWB

Page 4 New CIP projects and rate projections

Page 5 Possible new approach to Bull Run hydropower production

### Introduction

This is CUB's second memo related to the Portland Water Bureau (PWB) budget for FY 2016-17. The first memo CUB made suggestions to Commissioner Fish, PWB, and the Portland Utility Board (PUB) regarding the development of PWB's requested budget. That initial memo also included background information that seemed particularly helpful to the PUB.

This memo is to the Portland City Council but will also be shared with PWB leadership, the PUB, and the City Budget Office (CBO). I thank staff from PWB and Commissioner Fish's office for assistance with questions and appreciate the discussion on the requested budget by CBO and the PUB.

## Retain initial CUB recommendations reflected in requested PWB budget

CUB's major recommendations provided earlier to PWB and Commissioner Fish pertained to increasing communications capacity to facilitate monthly billing outreach and use of general funds for Mt. Tabor historic preservation work. I am pleased that both these recommendations were incorporated into the requested PWB budget and urge their retention by the City Council. Background on CUB's recommendations is provided below.

### Mt Tabor historic preservation work done by PWB with general fund dollars

The agreement between PWB and the Mt. Tabor Neighborhood Association was a commendable achievement. CUB appreciates PWB's negotiation about how many dollars would be spent on Mt. Tabor reservoir improvements, \$4 million over 4 years, and understands why the source of funds were not specified last summer.

CUB supports the requested PWB budget that includes an initial expenditure of \$750,000 in FY 2016-17 and the decision package for that spending to use general fund dollars. Our rationale is that since the Mt. Tabor reservoirs are not connected, CUB does not view them as essential elements of the water system and the work identified in the PWB/Mt. Tabor Neighborhood Association is not needed for water system operation. For this reason, use of ratepayer dollars to honor the City Council's \$4 million commitment is not appropriate.

A critical question we considered in developing this position is what would PWB do if the Mt. Tabor reservoirs were damaged in an earthquake? This question is particularly pertinent since severe damage to those seismically vulnerable reservoirs would occur during an earthquake significantly less intense than the Cascade Subduction zone quake. In other words it won't take "the big one" to cause severe damage to Mt. Tabor reservoirs with the high likelihood that they would become rubble. In that or any similar circumstance the PWB would not and should not repair or replace them. This is in contrast to a quake or other event damaging a functioning and needed water pipe or other feature of the water system which would then be repaired, or possibly retired sooner than otherwise planned and replaced. All this reinforces CUB's view that the disconnected Mt. Tabor reservoirs are not an essential component of the water system and the repairs under discussion are not appropriate ratepayer expenditures.

CUB strongly urges that the City Council accept the \$750,000 in general fund dollars for Mt. Tabor historic preservation work in PWB's requested budget (decision package WA\_05) and urges that this funding approach continue into the future.

# Monthly billing outreach within context of comprehensive and culturally sensitive communication strategy and increased outreach capacity

CUB is pleased that PWB's requested budget includes increased outreach staff capacity to facilitate addressing our recommendation for monthly billing outreach resources and a customer services budget that reflects increased costs for bill preparation and mailing that are likely to result from vigorous public outreach about the opportunity to request monthly statements. CUB's recommendation is linked to urging increased communication capacity, particularly regarding outreach to typically underserved communities, within the context of developing a comprehensive communication plan with a focus on equity and cultural awareness.

CUB advocated for the monthly billing change to allow customers to request monthly rather than quarterly bills without having to also use e-billing, a change that began November 25, 2014.<sup>1</sup> Meters are still read quarterly but instead of getting one bill, a customer can now request getting three monthly statements.

As of the end of February 2016, there were 20,928 monthly accounts which are 11.8% of the customers that could request this option. However, only 9,631 customers, 5.4% of those eligible, have requested this option since it was made available to all customers regardless of how they are billed in late November 2014. The other 11,297 monthly billing accounts include 6,521 e-billing accounts who opted in prior to November 2014, and 4,776 customers who had been in a previous budget billing program.

<sup>&</sup>lt;sup>1</sup> This option was actually first available in February of 2014 but only if the customer switched to e-billing which mitigated the cost impact of preparing and mailing out 12 rather than 4 bills each year. The e-billing requirement, however, was a barrier to those customers facing digital divide challenges, many of which seem likely to be customers who might particularly benefit from the household financial management advantage of monthly billing.

The percentage of monthly statement customers has been inching up slowly but it is clear that more outreach is warranted. Outreach hasn't been vigorous because the City Council's requirement to offer a monthly option without the e-billing linkage occurred on a timeline that did not allow adding outreach resources to the PWB budget. There was a media push about the availability of monthly billing in early 2015 but not the resources for a significant outreach effort, particularly one that emphasized reaching out to Portland communities that all too often are underserved.

There are three reasons that CUB supports monthly billing. One is how it facilitates monthly household budget management. The second is that comparisons between a household's other monthly bills and a monthly public utility bill will be more informative for customers. The third reason is that a vigorous monthly billing outreach effort can inform future discussions of possibly moving from quarterly meter reading to monthly reads, a change that would be a significant expense. Obviously many factors will influence any future evaluation of monthly meter reading. If after extensive monthly billing outreach, however, there are still significant numbers of Portland residential customers who stick with quarterly billing, that will be useful information in evaluating the priority of spending major dollars to shift from the current quarterly meter reading to monthly meter reads.

CUB strongly urges that the City Council accept the decision package (WA\_02) for increased community information and outreach staff capacity that in addition to meeting the valuable objectives noted in the CBO analysis will also facilitate monthly billing outreach.

## Other decision packages

Overall, CUB supports the other decision packages but we have a question about a CBO objection and want to highlight three important points regarding several of these requests.

Decision package WA\_01 to add Water Quality Laboratory and staff capacity for *Cryptosporidium* testing is very important since testing is a crucial element of ensuring compliance with the Bull Run Treatment Variance and avoiding construction of an expensive treatment facility. Adding Hydraulic Network Analysis staff capacity, a component of decision package WA\_03, is particularly important since it is a recommendation of a recent Wholesale Cost Allocation Audit and contributes to the availability of information needed for appropriate allocation of costs between PWB and its wholesale partners. Increased facilities maintenance including horticultural capacity, another component of decision package WA\_03, is an element of ensuring compliance with conditional use permits required for construction of several new projects such as the seismically resilient Kelly Butte reservoir.

CBO is not recommending funding for a records management position requested as part of decision package WA\_04. CUB understands their logic in seeing that position as a lower priority. But it seems likely that this position will eventually be needed and CUB would appreciate the City Council requesting information from PWB on the impact of delaying this records management staffing request or if they anticipate being able to deal with records management demands in some other manner and/or if it is possible to find savings elsewhere that would facilitate adding this position.

### Decorative fountains – observation and questions from CUB

The proposed Parks and Recreation budget requests water utility ratepayer dollars to cover their expenses to operate and maintain several decorative fountains in several City parks. This request is based on a ruling by Judge Bushong in the Anderson case that operation and maintenance of decorative fountains is an appropriate PWB ratepayer expense. The CBO recommendation is evidently also based

on the Bushong rationale in the Parks and Recreation budget, but they suggest that a better approach is to turn operation and maintenance of decorative fountains over to the PWB.

CUB has one observation and two questions for consideration by the City Council on this issue.

Our observation is that Judge Bushong has also ruled that hydroparks are not an appropriate element of the PWB system. However, PWB has not requested general fund dollars for their operation and maintenance of hydroparks nor have they suggested that this function be shifted to Parks and Recreation which could be a logical conclusion from the Bushong ruling.

Question number one is if Bushong rulings are going to be used as rationale for FY 2016-17 budget decisions, should they be used in all applicable situations?

Question number two is whether or not it would be prudent to wait until the Anderson case litigation is finalized before using any of the Bushong rulings for making FY 2016-17 budget decisions? The City has taken some actions thus far based on these rulings so perhaps this question is not germane. If the City plans to appeal the Bushong decisions, however, that might be a worthwhile consideration when making a budget decision on the decorative fountains budget.

## **Consolidate Cayenta billing system staff within PWB**

This is a repeat recommendation from last year: move Cayenta billing system staff currently working within the Revenue Bureau to PWB so that all staff dealing with the billing system are under PWB supervision. This will facilitate speedier response to PWB and BES² billing related requests and generally streamline operations. CUB's question in the context of the FY 2016-17 budget deliberations is whether or not consolidating all Cayenta billing system staff with PWB will result in ratepayer savings. It seems likely this would be another benefit of this change so assessing this staffing consolidation step within the context of the budget process is recommended.

### **New CIP items and rate projections**

CUB completely agrees with the CBO discussion about the importance of close scrutiny of CIP projects that appear in the first year of the five year plan since they will have long term impacts. For that reason, CUB appreciated the assistance of PWB staff last fall in reviewing the anticipated list of projects that would be new entries in the FY 2016-17 CIP plan. I didn't see any red flags but will monitor the early stages of these projects. I will also continue to focus on new projects entering the CIP as well as requesting information from PWB on major projects considered likely to enter the CIP plan a couple of years in the future.

The forecasted 10.7% rate increase in fiscal year 2019-20 illustrate how CIP decisions made in prior years affect rates for some time in the future. In that year anticipated capital project spending, particularly the Willamette River Crossing and Washington Park Reservoir projects, is quite significant and expenses related to the Portland Building Renovation also begin. Rate impacts that year are smoothed by use of the rate stabilization account which is appropriate and very important. Thinking ahead, however, to possible project delays or savings opportunities that could even slightly mitigate the fiscal year 2019-20 projected rate hike needs to begin in advance of that year. This highlights why CUB will continue to our emphasis on particularly careful review of newly introduced projects.

<sup>&</sup>lt;sup>2</sup> PWB operates the Cayenta billing system for both water customers and for customers of sewer and stormwater services provided by BES.

## Possible new approach to Bull Run hydropower production

There are two powerhouses in the Bull Run watershed with electrical production capacity that has averaged 85,600,000 kWh (kilowatt hours) per year. The electricity sales agreement between PGE and the Portland Hydroelectric Project (PHP) will end in August of 2017. At that time the PHP debt will be retired and decisions will have to be made regarding program operation since PGE has indicated they are no longer interested in managing PHP. PGE may be interested in purchasing electricity though market uncertainties would likely affect future sales agreements and revenue for the City. Regardless of the operator and revenue level there are ongoing asset maintenance or replacement needs expected in five to ten years. All this raises questions about the possibility of future costs exceeding future revenues.

PHP staff may have already thoroughly explored a wide range of alternatives and if a business case cannot be made to continue hydropower production in the Bull Run, CUB could well support the possibility mentioned in the CBO report to decommission PHP assets. There might be new options, however, linked to the recent passage of the Oregon Clean Electricity & Coal Transition Plan, SB 1547. That legislation increases the Renewable Portfolio Standard (RPS), extends the life of some Renewable Energy Certificate (RECs), and encourages small-scale community-based renewable energy projects. It isn't clear what changes might be required to allow the PHP to be an eligible resource under new Clean Electricity & Coal Transition bill. Energy Trust of Oregon (ETO), however, has experience with supporting community renewable energy efforts, including hydro-based projects, and an exploratory conversation with them is an option that CUB would be happy to help facilitate.